

Committee on Resources

Subcommittee on Water & Power

Testimony

**TESTIMONY OF MICHAEL STEARNS, BOARD CHAIRMAN,
SAN LUIS & DELTA-MENDOTA WATER AUTHORITY, BEFORE
THE SUBCOMMITTEE ON WATER AND POWER OF THE
U.S. HOUSE OF REPRESENTATIVES
COMMITTEE ON RESOURCES
April 15, 1998**

Thank you, Mr. Chairman, for inviting me to testify before your committee today regarding the impacts and opportunities facing agriculture under the Central Valley Project Improvement Act (CVPIA). I am here in my capacity as Chairman of the Board of the San Luis & Delta-Mendota Water Authority (Authority) and in my capacity as a farmer. The Authority is a Joint Powers Authority consisting of 32 member agencies, which receive Central Valley Project (CVP) water under contract with the Bureau of Reclamation to meet the water needs of over 1.3 million acres of highly productive agricultural lands within the western San Joaquin Valley, San Benito and Santa Clara Counties. Authority members also provide approximately 200,000 acre-feet annually for municipal and industrial uses, primarily in the Santa Clara Valley, and 350,000 to 450,000 acre-feet of water annually for waterfowl and wildlife habitat in the San Joaquin Valley.

While our members generally acknowledge and are supporting to the best of our ability the environmental protection goals of the CVPIA, the resulting reallocation of water and increased water prices have presented a tremendous challenge to agriculture in our area. We are very proud of the efforts our community has made to rise to the challenge. Through a combination of crop changes, water conservation measures, tiered pricing, water purchases during wet years, and drainage management programs, our farmers have managed to become the most productive agricultural region per unit of water used in the world. It is noteworthy that these changes required substantial district and on-farm investments at a time when water prices rose on average over 500 percent. Notwithstanding the ingenuity and perseverance that our farmers have shown in making the transition, their approaches have depended heavily on market purchases during wet years and groundwater depletion, neither one of which is feasible over the long run. As a result, I do not believe that the economy of our area will remain sustainable over the next decade unless our water supply picture improves. Unfortunately, we are worried that implementation of the CVPIA over the next few years will result in even greater losses to our area. I will describe in my testimony today what we have done to adjust to the impacts of the CVPIA, and why I believe we need help if we are to survive in the future.

AGRICULTURE'S RESPONSE TO THE CHALLENGES OF THE CVPIA

The CVPIA has had direct and substantial impacts on the westside of the San Joaquin Valley, both in terms of reduced water supply and increased water prices for Ag Service Contractors. As I will discuss below, the main elements of the CVPIA causing supply reductions to Ag Contractors are its provisions providing increased supplies for wildlife refuges, the dedication of 800,000 acre-feet of yield for environmental purposes, and increased Trinity River flows. Indirectly, the CVPIA has also affected water supply through re-operation of the CVP, and as well as through market competition resulting from environmental purchases for instream flows and "Level 4" refuge supplies.

Directly as a result, price impacts have occurred of Restoration Fund charges, tiered pricing requirements, and the "hammer clause" provision. Investments in conservation technology to cope with water supply shortages represent an indirect cost of the CVPIA.

Significant as these impacts of the CVPIA have been by themselves, when combined with the drought and restrictions under the Endangered Species Act, the impacts have been staggering. During the last five years since passage of the CVPIA, ag service contractors received on average only 75% of contract supply, despite the fact that four of those five years were wet or very wet years. Looking back to 1990, when the drought and Endangered Species Act restrictions affected our supplies, the average for the period was only about 60%. Our long-term models indicate that at best ag service contractors can expect a 65 to 70 percent supply on average under the CVPIA, the Bay-Delta Accord, and ESA, as they are currently being implemented. Our modeling indicates that we can only expect 100% of deliveries in one out of four years; indeed this prediction may be overly optimistic given that even in this year, nearly the wettest year of record, ag contractors are currently receiving an allocation of 85%. Our expectations regarding minimum deliveries are also substantially less under the CVPIA. In the early 1980s, **minimum** deliveries south of the Delta were 50 percent of contract; now our modeling indicates that in some years ag contractors may receive no CVP water at all.

At the same time that our contractors have experienced substantial cutbacks in supply over historical levels, they have been hit with significant price increases. Few stakeholders appear to be aware of just how much and how quickly water prices have risen in our area. Agricultural contractors in our area are paying as much as 1000% higher than in 1987.

PROACTIVE DRAINAGE APPROACH

Meanwhile, restrictions on agricultural drainage discharges have required many of our districts to make major investments in programs to reduce and better manage drainage. Under an agreement allowing for use of the San Luis Drain, Grassland area farmers have committed to implement the Grassland Bypass Project, the goal of which is to reduce annual selenium discharges by more than 50 percent of historical discharge levels over a five-year period beginning in 1996. During the first year of the program, water year 1996-97, our farmers achieved a reduction in historical selenium load discharge of nearly 40%. These results were achieved through a combination of activities: the provision of low-interest loans to farmers for purchase of gate pipe, sprinkler, and drip irrigation systems; the use of tiered pricing to encourage better drainwater management; the development of an "Active Land Management Program," in which land is planted in crops that can utilize water from the high water table; recirculation of surface runoff; and use of collected drainwater to control airborne dust.

While we are proud of the progress we have made in responding to the challenges of the CVPIA, the high costs of meeting the challenges raise concerns of sustainability and prohibit our ability to absorb any additional impacts, as I will demonstrate later in my testimony.

CVPIA IMPACTS ARE BORNE BY A RELATIVELY SMALL GROUP OF CALIFORNIA WATER USERS

The CVPIA attempts to achieve sweeping environmental reforms unfortunately at the expense of a relatively small group of California water users. The CVPIA focuses exclusively on CVP contractors, who use only about 20% of the water used in the state. Neither State Water Project contractors nor other water

diverters are asked to share financially or in terms of water supply given up to the environment. Within the CVP itself, the cutbacks necessary to meet the CVPIA's environmental requirements fall on about 25% of the CVP contractors - predominantly ag service contractors south of the delta. It is worth noting that this situation is a result partly of the geographic setting in which our contractors receive water, i.e., their dependency on pumping water through the Delta, but it is also a result of a multitude of discretionary decisions made by the Interior Department implementing the CVPIA.

Thus, while the CVPIA's environmental goals might have been realistic and the burden for meeting them tolerable if shared equitably among all California water users, the inequity of the actual allocation makes it intolerable and unsustainable for the small group of users currently bearing the burden. As a practical matter, I don't believe it will be realistic to fully achieve the goals of the CVPIA through this approach.

THE WESTSIDE ECONOMY CANNOT SUSTAIN ANY FURTHER SUPPLY CUTBACKS

Even with all the changes our farmers have made to respond to the impacts of the CVPIA, our situation is not sustainable over time, for several reasons. First, part of our success has been the reliance on market purchases - an option that has only been possible and affordable during the last few very wet years. We know that this strategy will not be possible during dry years, and will become even more difficult during normal or wet years as competition increases from environmental water purchases, (Level 4 Refuge and "B" Purchases). Second, a part of our short-term survival strategy has been reliance on groundwater, which is already overdrafted. Again, this practice cannot sustain us in the long-term. Third, our financial ability to make investments to "buy" our way out of the problem has become increasingly constrained as water prices have skyrocketed and we have already invested large sums in water management technology.

Thus, the ag service farmers of the westside of the San Joaquin Valley have exhausted their capacity to sustain existing or to absorb any further supply cutbacks. Indeed, I do not believe that our local agricultural economies will survive if we do not receive **increased and more reliable** supplies at an affordable price in the near future. The CVPIA directs the Interior Department to take steps to alleviate the supply impacts of the environmental water reallocation. For example, section 3406(d)(1) directs the Secretary to "endeavor to diversify sources of [refuge] supply in order to minimize possible adverse effects upon Central Valley Project contractors." Similarly, section 3408(j) directs the Secretary to develop a least-cost plan to minimize adverse impacts of the dedicated environmental water to contractors. While the Bureau has prepared such a study, nothing has yet been done to increase the yield of the project or minimize adverse effects on contractors. (We are encouraged that the Bureau is looking into south of delta groundwater storage such as the Madera Ranch project possibly for this purpose, but this project is only in the very early stage of investigation.)

Rather than seeking ways to increase the yield or minimize impacts to contractors, it appears to us that the Department is on the verge of actions that will result in even greater supply cutbacks to our area. Indeed, it seems that every discretionary decision made by the Department of Interior regarding CVPIA implementation is intended to provide more water to the environment, at the expense of farmers in our area. I will give examples of three areas where the Department's decisions could cause further supply cutbacks to ag service contractors: management of the so-called "B2" water, refuge shortage policy, and Trinity River flow decisions.

On November 20, 1997, the Interior Department issued its final proposal for implementation of Section 3406(B)(2) of the CVPIA, or management of the 800,000 acre-feet of environmental water. While the proposal acknowledges that potential water supply reductions resulting from this policy could range from

119,000 to 1,138,000 acre-feet, it explicitly rejects the notion that there should be any linkage between this management approach for the 800,000 acre-feet with activities designed to offset the resulting supply impacts. Because the Department's approach will in reality dedicate more than 800,000 acre-feet of yield to the environment, we have brought a lawsuit challenging this approach. In addition, we consider the Department's approach to be a fundamental breach of the commitment made in the Bay/Delta Accord by the federal signatories guaranteeing certainty and reliability of supply until a permanent Delta solution is chosen.

On March 20, 1998, the Department of the Interior issued a new draft policy proposal on refuge water supplies. While one of our members, the Grassland Water District, would benefit from the draft policy, it will if implemented once again exacerbate the disproportionate impact problem by creating greater shortages for ag service contractors south of the delta. The proposed policy would result in a reallocation of an additional 80,000 to 90,000 acre feet in certain year types from ag service contractors to the refuges, an additional supply impact of about 5% (on top of what we have already projected as a 25 to 30% impact on average from other policies already in place).

A third issue on which the Department's decision could further reduce our supplies relates to implementation of section 3406(b)(23), Trinity River flows. That section provides for a minimum Trinity River flow of 340,000 acre-feet and sets the stage for considerable increases in Trinity River flows beyond that level following the completion of the Trinity River Flow Evaluation Study. Last year, the Interior Department attempted to increase Trinity River flows to up to 427,000 acre-feet. While this effort was blocked by our lawsuit because the prerequisite studies had not yet been completed, we can anticipate that a similar proposal will be made as soon as the Flow Evaluation Study is done. Because of the disproportionate impact situation described above, we anticipate that any additional Trinity instream flows would result in a direct cutback to our contractors' supply of the same amount.

While our farmers have done a good job adjusting to the impacts of the CVPIA thus far, most of our survival tactics are not sustainable. I believe that we have exhausted our capacity to absorb the further cutbacks that might result from any of these policies, as I will explain based upon my own experiences as a farmer. The commodity prices received by farmers are shaped by international market forces and have no connection to production costs. Taking for example the prices received for cotton and tomatoes, in 1990 they were \$51.05/ton and \$0.789/pound respectively. In 1997, they still hovered at \$51.51/ton and \$0.780/pound respectively, despite the following cost increases over the same period: labor, 48%; equipment, 40%; materials, 25%; and water, 500%. Our profit margins have become so narrow, in large part due to the huge increase in water cost, that we cannot afford any supply disruptions of even moderate consequence.

Even in the last few years, when the CVP allocations were fairly high, the final decisions regarding our allocation were so late in the spring that the uncertainty created considerable hardships for our farmers. Not knowing from year to year how much of the allocation we can count on creates difficulties and imposes financial costs because many of the decisions regarding investments must be made a good six months before the final allocation has been announced. Farmers must make a commitment for the land, including the rent expense, the year prior to planting. Likewise, the land must be worked in the fall when soil is dry to the point of bedding up, otherwise yields will be drastically reduced. Contracts must be negotiated and commitments made for fertilizer, soil amendments and pre-irrigation during the fall and winter months, prior to allocation announcements. I estimate that the average cost if land is worked in the fall but not planted due to inadequate supply availability in the spring is \$427 per acre. While some have suggested that the solution to our dilemma is to simply go out on the water market and buy up new supplies, the economic

squeeze we are in makes this solution a limited one at best, and really only affordable, ironically, during wet years.

WHERE DO WE GO FROM HERE?

I hope my testimony today has demonstrated that many of the water policy reforms intended by the CVPIA have already occurred in our area: conversion to higher value crops, investment in more efficient irrigation technologies, better management of drainage water, and higher water prices. While the strategies used to respond to the impacts of the CVPIA have allowed most of our farmers to hang on, much of their ability to do so has come from the luck of four very wet years. It is my personal conviction from years of farming that many will not be so fortunate when the weather turns dry again. My only hope is that the CalFed program will begin in the near future to make interim supply improvements. I would like to close with an invitation to all of you to come visit the westside and see for yourselves the dramatic changes that have taken place over the last decade.

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